

# REITs

## Withholding Tax Rate Remains A Sector Overhang

### Highlights

- Uncertainty on the extension of the withholding tax rate represents an overhang to the sector, despite positive development from the partial SST pullback on rental and leasing services from 8% to 6%.
- Remain cautiously optimistic on the sector as the slower luxury sales growth and rising cost pressures should be cushioned by growing retail vibrancy from VMY2026, MICE events as well as resilient industrial demand.
- Maintain MARKET WEIGHT. Top picks: CLMT, PREIT and Axis REIT.

### Analysis

- **Withholding tax rate (WHT) concession under review.** We understand that the Malaysian REIT Managers Association (MRMA) is currently engaging the Ministry of Finance (MOF) on the renewal of the WHT concession on REIT income distributions, following its expiry at end-25. Recall that the 10% WHT rate was initially introduced as a temporary concession in Budget 2009 (for a three-year period), and has since been extended multiple times, with the latest extension formalised under Public Ruling No.1/2021, valid until 31 Dec 25. The original intent was to enhance the attractiveness of REITs at its nascent stage of development, reducing WHT from 20% to 10% for foreign institutional investors, and from 15% to 10% for non-corporate investors.
- **Reversion to pre-concession rates unlikely.** Based on our sensitivity analysis, a 1ppt change in WHT would impact unitholders' net yields by 5-8bps. In a worst-case scenario where the concession is not extended, REIT distributions would be subject to prevailing tax treatment at the unitholder level rates, implying a 50-100bps reduction in net yields. We believe that this is less likely, given the narrowing sector yield and the need to remain competitive against regional peer such as Singapore (non-resident non-individual: 10%).

### Tax Rate To Unit Holders

| Chargeable Person                        | ----- YA 2009 – 2015 ----- |      | ----- YA 2016 – 2025 ----- |      |
|------------------------------------------|----------------------------|------|----------------------------|------|
|                                          | Type of tax                | Rate | Type of tax                | Rate |
| <b>a) Company</b>                        |                            |      |                            |      |
| Resident                                 | Corporate                  | 25%  | Corporate                  | 24%  |
| Non-Resident                             | WHT (final tax)            | 25%  | WHT (final tax)            | 24%  |
| <b>b) Foreign Institutional Investor</b> | WHT (final tax)            | 10%  | WHT (final tax)            | 10%  |
| <b>c) Individual</b>                     |                            |      |                            |      |
| Resident                                 | WHT (final tax)            | 10%  | WHT (final tax)            | 10%  |
| Non-Resident                             | WHT (final tax)            | 10%  | WHT (final tax)            | 10%  |
| <b>d) Others</b>                         |                            |      |                            |      |
| Resident                                 | WHT (final tax)            | 10%  | WHT (final tax)            | 10%  |
| Non-Resident                             | WHT (final tax)            | 10%  | WHT (final tax)            | 10%  |

Source: Inland Revenue Board of Malaysia, UOB Kay Hian

### Peer Comparison

| Company             | Ticker     | Rec* | Price    | Target | Upside | Last  | ----- PE ----- |       |       | Yield | ROE   | Market | Price/ |
|---------------------|------------|------|----------|--------|--------|-------|----------------|-------|-------|-------|-------|--------|--------|
|                     |            |      | 6 Jan 26 | Price  | To TP  | Year  | 2024A          | 2025E | 2026E | 2026E | 2026E | Cap.   | BV ps  |
|                     |            |      | (RM)     | (RM)   | (%)    | End   | (x)            | (x)   | (x)   | (%)   | (%)   | (RMm)  | (x)    |
| Axis REIT           | AXRB MK    | BUY  | 1.94     | 2.24   | 15.5   | 12/24 | 23.2           | 19.7  | 19.1  | 5.3   | 6.2   | 3,928  | 1.2    |
| CapitaLand Malaysia | CLMT MK    | BUY  | 0.655    | 0.78   | 19.0   | 12/24 | 13.6           | 13.0  | 12.6  | 7.8   | 5.2   | 2,182  | 0.8    |
| IGB REIT            | IGBREIT MK | HOLD | 2.91     | 2.61   | (10.3) | 12/24 | 28.0           | 24.6  | 22.8  | 4.6   | 10.2  | 12,580 | 2.1    |
| KLCC Stapled Group  | KLCCSS MK  | HOLD | 8.95     | 8.51   | (5.0)  | 12/24 | 20.7           | 19.9  | 18.9  | 5.3   | 5.9   | 16,158 | 2.9    |
| Pavilion REIT       | PREIT MK   | BUY  | 1.84     | 2.00   | 8.7    | 12/24 | 21.7           | 20.9  | 19.2  | 5.6   | 6.9   | 7,222  | 1.8    |
| Sunway REIT         | SREIT MK   | HOLD | 2.37     | 2.31   | (2.4)  | 12/24 | 24.3           | 19.0  | 19.0  | 5.0   | 7.6   | 8,117  | 1.5    |
| KIP REIT            | KIPREIT MK | NR   | 0.91     | NR     | -      | 6/25  | -              | 11.8  | 11.2  | 8.4   | 7.4   | 872    | 0.8    |

Source: UOB Kay Hian

## MARKET WEIGHT (Maintained)

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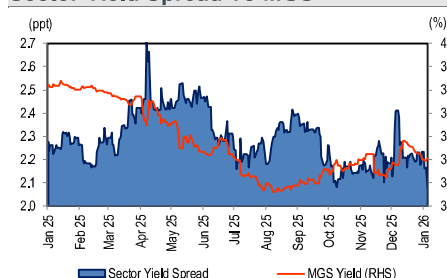
+603 2147 1984

### Sector Picks

| Company             | Ticker   | Rec | Share Price (RM) | Target Price (RM) |
|---------------------|----------|-----|------------------|-------------------|
| CapitaLand Malaysia | CLMT MK  | BUY | 0.655            | 0.78              |
| Pavilion REIT       | PREIT MK | BUY | 1.84             | 2.00              |
| Axis REIT           | AXRB MK  | BUY | 1.94             | 2.24              |

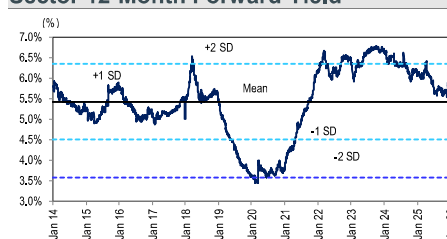
Source: Bloomberg, UOB Kay Hian

### Sector Yield Spread To MGS



Source: Bloomberg, UOB Kay Hian

### Sector 12-Month Forward Yield



Source: Bloomberg, UOB Kay Hian

### • Cautiously optimistic on retail segment despite partial SST rollback.

Effective 1 Jan 26, the government has reduced the SST on rental and leasing services from 8% to 6%, following its initial implementation on 1 Jul 25. While this is directionally positive and partially mitigates the earlier cost pressures on tenants, we continue to remain cautiously optimistic as several challenges persist for the retail segment. These include: a) luxury sales remaining soft, as seen in certain luxury brands such as The Gardens' (single-digit yoy decline) and Suria KLCC's tenant sales (-10% yoy in 3Q25); b) a full-year SST impact which has yet to be reflected in 2025; and c) minimum wage hikes impacting operational costs. Nevertheless, the lower electricity costs should partially cushion the negatives, supported by lower fuel costs and higher automatic fuel adjustment (AFA) rebates.

• **VMY2026...** Malaysia recorded 17.8m tourist arrivals in 8M25 (+8.1% yoy), reaching 98.2% of 8M19 levels. The top three source countries were Singapore (33.9%), China (15.7%) and Indonesia (14.4%), which were up by 4.6%, 22.2%, and 7.0% yoy respectively. Malaysia is on track to achieve its visitor arrivals target of 45m in 2025, with 63% achieved in 8M25 (28m). Looking ahead, Tourism Malaysia has set an ambitious target of 47m visitor arrivals for Visit Malaysia Year 2026 (VMY2026). This bodes well for malls and hotels located near tourist attractions.

• **...bodes well for Pavilion REIT (PREIT) and KLCC Stapled Group (KLCCSS).** Despite the strong arrivals figure, hotel occupancy rates and average room rates in 8M25 dropped 3.3ppt and 2.9% yoy respectively, according to ADATA and Malaysian Association of Hotels, which we believe is partly attributable to the new upscale and luxury hotel openings such as Moxy KL (May 25), Park Hyatt KL and Hyatt Regency KL (Aug 25). Nevertheless, we understand that occupancy for PREIT's Banyan Tree and Pavilion Hotel KL, as well as KLCCSS' Mandarin Oriental, has been stable, due to their proximity to tourist hotspots.

• **MICE activity to strengthen during VMY2026.** We expect MICE events to remain strong in 2026, despite Malaysia no longer holding the ASEAN chairmanship. This is underpinned by recurring corporate events, a deeper pipeline of China-led exhibitions and incentives such as 100% tax exemption for international conferences and exhibitions verified by Ministry of Tourism, Arts and Culture Malaysia (MOTAC). PREIT has seen a strong pick-up in suburban event activity, with Pavilion Bukit Jalil's exhibition centre now hosting 4-5 events per month (vs 2-3 in 2024), driving meaningful traffic uplift to the mall. Sunway REIT's (SREIT) hospitality assets are also benefitting from stronger corporate- and association-led conferences, with halal-certified F&B further enhancing its competitiveness for large group events. Meanwhile, KLCCSS remains optimistic about upcoming events within its precinct for 2026 and expects the occupancy rate improvement for Mandarin Oriental to sustain. Overall, a healthier and more recurring MICE cycle should continue to support both hospitality and retail assets across KLCCSS, PREIT and SREIT in 2026.

### • Office REITs: Rental rates to stay flattish with sustained oversupply.

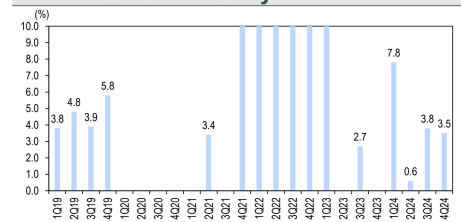
The flight to quality continues to favour newer Grade A, transit-linked and green-certified buildings. However, we expect overall market occupancy to remain largely unchanged. Knight Frank projects Greater KL's occupancy rate will reach 86% by end-25 (vs 84% end-2Q25), with only two new completions supported by pre-committed leasing (Sunway Square Tower 1 and Oxley Tower). Looking ahead in 2026, there could be a temporary dip in Greater Kuala Lumpur's overall occupancy rates, with 2.72m sf of new net lettable area (NLA) entering the market (vs 0.85m sf in 2025), including UOA Duo Tower B (432,000 sf), The Capitol (1.2m sf), TNB Gold Tower (520,000 sf), and Menara Golden Eagle (567,000 sf). We expect SREIT's office occupancy to improve gradually from 81% in 3Q25 due to a gradual pick-up

### Key Assumptions

| (%)               | 2024 | 2025F | 2026F |
|-------------------|------|-------|-------|
| Revenue Growth    | 8.8  | 6.1   | 8.0   |
| Net Profit Growth | 8.8  | 12.7  | 9.3   |
| DPU Growth        | 7.7  | 6.9   | 4.2   |

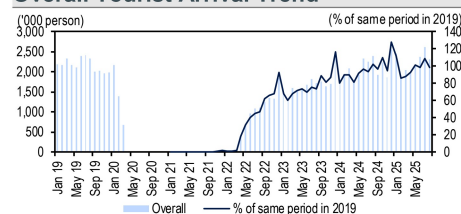
Source: Respective companies, UOB Kay Hian

### Retail Sales Growth Yoy



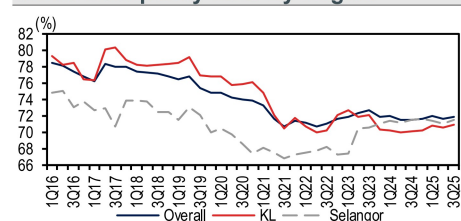
Source: Retail Sales Group, UOB Kay Hian

### Overall Tourist Arrival Trend



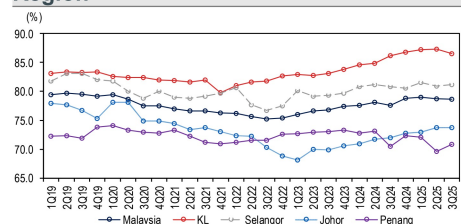
Source: Tourism Malaysia, UOB Kay Hian

### Office Occupancy Rate By Region



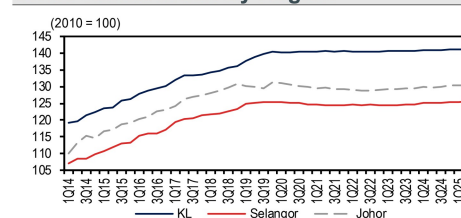
Source: CEIC, UOB Kay Hian

### Shopping Complex Occupancy Rate By Region



Source: CEIC, MOF, UOB Kay Hian

### Office Rental Index By Region



Source: CEIC, MOF, UOB Kay Hian

in occupancy at Sunway Putra Tower and Sunway Tower, while PREIT's Pavilion Tower improved to 82% in 3Q25 (vs 75% in 2Q25).

- **Industrial REITs continue to offer REITs earnings stability**, underpinned by a long WALE and resilient demand for logistics and warehousing spaces. Sector demand continues to be driven by the automobile sector, electrical and electronics (E&E) industries, and 3PL providers alongside manufacturers. Looking ahead, AXIS REIT and CLMT are actively evaluating yield-accretive industrial opportunities. CLMT aims to grow its logistics and industrial exposure to 20% of portfolio AUM by 2028 (vs 7.9% in 3Q25), with a targeted net yield of 6.0-6.5%, while AXIS REIT maintains RM300m of potential acquisitions in the pipeline with a targeted net yield of 6.5% on average.

## Valuation/Recommendation

- **Maintain MARKET WEIGHT.** Our cautiously optimistic outlook for 2026 is underpinned by: a) slower luxury sales growth, b) higher operational costs from full-year minimum wage hikes, and c) SST-expansion impacts. However, the negatives should be offset by: a) higher footfall and occupancy from VMY2026 and MICE events, b) growing demand for industrial assets, and c) lower electricity costs from energy savings.
- **CapitaLand Malaysia Trust (CLMT MK/BUY/Target: RM0.78).** CLMT continues to benefit from its strong presence in neighbourhood malls, with assets outside Klang Valley delivering a resilient performance. In recent years, the REIT has expanded into industrial properties, acquiring over RM600m worth of assets. We remain positive on CLMT for its attractive dividend yield of 7.8%. Our DDM-based target price implies a 6.6% 2025 dividend yield (vs 10-year mean of 6.1%), based on a required rate of return of 8.5% and terminal growth rate of 1.5%.
- **Pavilion REIT (PREIT MK/BUY/Target: RM2.00).** We expect its flagship asset, Pavilion KL Mall, to continue seeing higher footfall yoy and sustained tenant sales on the back of rising inbound tourist arrivals. Its recently-completed acquisitions of two prime hotels, Banyan Tree KL and Pavilion Hotel KL, should further capitalise demand from VMY2026. Our DDM-based target price implies a dividend yield of 5.1% for 2026 (vs 10-year mean of 5.4%), based on a required rate of return of 7.4% and terminal growth rate of 2.2%.
- **Axis REIT (AXRB MK/BUY/Target: RM2.24).** We expect Axis REIT to continue with its yield-accretive asset acquisitions on the back of healthy gearing. The REIT is poised to capitalise on the resilient demand in the logistics and warehousing spaces, having 58% of its portfolio in Selangor and 27% in Johor. Furthermore, Axis REIT's WALE of 4.6 years provides income visibility and buffers against potential pressures from rental renewals following the implementation of SST on leasing. Our DDM-based target price implies a dividend yield of 4.6% for 2026 (vs 10-year mean of 4.8%), based on a required rate of return of 6.2% and terminal growth rate of 1.5%.

## Sector Catalyst/Risk

- Intensifying competition from new mall and hotel openings impacting footfall and occupancy.
- Softening retail sales momentum.
- Higher construction and refurbishment costs, potentially diluting acquisition yields.

### Sector 12-Month Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

### CLMT 12-Month Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

### PREIT 12-Month Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

### AXRB 12-Month Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

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